Neoliberal Reason and Its Forms: De-Politicisation Through Economisation

Yahya M. Madra and Fikret Adaman

Department of Economics, Boğaziçi University, Istanbul, Turkey;
ymadra@boun.edu.tr

Abstract: This paper offers a historically contextualised intellectual history of the entangled development of three competing post-war economic approaches, viz the Austrian, Chicago and post-Walrasian schools, as three forms of neoliberalism. Taking our cue from Foucault's reading of neoliberalism as a mode of governmentality under which the social is organised through "economic incentives", we engage with the recent discussions of neoliberal theory on three accounts: neoliberalism is read as an epistemic horizon including not only "pro-" but also "post-market" positions articulated by post-Walrasian economists who claim that market failures necessitate the design of "incentive-compatible" remedial mechanisms; the Austrian tradition is distinguished from the Chicago-style pro-marketism; and the implications of the differences among the three approaches on economic as well as socio-political life are discussed. The paper maintains that all three approaches promote the de-politicisation of the social through its economisation albeit by way of different theories and policies.

Keywords: Michel Foucault, economisation, Austrian School, Chicago School, post-Walrasian School

Introduction

More than half a decade after the 2008 Crash and with no end in sight to depressive economic conditions, neoliberal reason displays a certain resiliency. In time, the initial calls for intervention and regulation transformed into austerity programs run by technocratic governments. In the absence of a major redistribution of wealth and income, returning to a New Deal arrangement with well paying secure jobs for all, comprehensive social security, free and quality education, accessible healthcare and active government involvement in social welfare, appears to many a nostalgic indulgence. Furthermore, when such calls for sobriety are regrettably framed by various discourses of economic necessity, resource scarcity, inevitable belt-tightening and a rebalancing of budgets, there is no room left for foundational reconsiderations of how we organise economic practices (of extraction, production, appropriation, distribution, consumption and investment), define necessity, share surpluses, relate to ecology, and redistribute abilities and capabilities.

In this paper, we argue that critical positions that question the founding assumptions of modern mainstream economics are marginalised, in part due to neoliberalism's enduring hegemony—not only across the entire surface of the social field, as has been meticulously analysed by many (eg Hall 2011), but also within the discipline of economics and economic policymaking (eg Madra and Adaman 2010). Within the

Antipode Vol. 46 No. 3 2014 ISSN 0066-4812, pp. 691–716 doi: 10.1111/anti.12065
© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

disciplinary field, we propose a unique definition of neoliberalism as two clusters of ontological projects with shared epistemics; namely, *pro-market* and *post-market*, both of which aim to reorganise the social such that all human behaviour is governed through an interface of economic incentives. The project of the *economisation* of the social, materialised either through the naturalisation of economic processes or technocratisation of their governance or both, entails its *de-politicisation*. Moving beyond popular representations that reduce neoliberalism to a set of *marketisation* policies (ie privatisation, trade and financial liberalisation, deregulation) and complementing mainstream Marxian readings that define it as a *class project* of "consolidation of class power" (Castree 2009; Duménil and Lévy 2011; Harvey 2005, 2009), we read it as *an interdiscursive horizon*, gradually formed in a series of interconnected and constitutive theoretical controversies traced back to the inter-war years. Neoliberalism forges *an epistemic shift* at the level of social subjectivity: as a project, it aims to transform the way individuals relate to one another and their environments, thereby potentially generating a change in social being. This *de-politicisation through economisation* contributes to silencing the attempts to rethink the very organisation of economic practices that may be needed to break from the growth and austerity cycles of capitalism.

Pro-market approaches always claim there are not enough markets and thus there is always room to introduce new markets to best satisfy the "interests" of economic actors. In contrast, post-market approaches argue that more often than not markets are not enough in and of themselves, and that there is always room to design and implement "incentive-compatible" mechanisms to efficiently reconcile the "interests" of interacting actors. While pro-market approaches tend to resist all corrective interventions and redistributionary efforts of the state, arguing that these would distort the economic signals that coordinate the activities of individuals, households and firms, post-market approaches call for such interventions and efforts, as long as they are "economically sound". Despite these differences, both clusters share a common premise: individuals *respond* to economic incentives. This common premise has consequences outside the discipline of economics. Given the performativity of economics, both orientations, whether they advocate extending markets or designing "incentive-compatible" mechanisms, propose policies that cultivate opportunism in all social arenas, even when they were intended to neutralise its negative (welfare-reducing) effects.

In *The Birth of Biopolitics*, Michel Foucault (2008) outlines the rise of the discourses of economisation in the decades following WWII and reads this rise as a transformation in liberal governmentality from the classical liberal project of imposing limits on the government control over markets (civil society), to the neoliberal project of modelling "the overall exercise of political power" on the competitive logic of markets (131). Foucault's reading enables us to understand neoliberalism as an *episteme*, "as an interdiscursive horizon, situating all historically determinate discourses, different and dispersed, in a common spatial field" (Amariglio 1988:586–587). This reading renders both pro-market and post-market approaches intelligible as part of a common spatial field that exhausts the horizon of economic theorising and policymaking, at the expense of marginalising alternative discourses. By imposing a set of "unspoken rules of discursive formation which silently but

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

inexorably determine the possibilities of what can be and has been said" (587), this interdiscursive horizon renders it impossible to formulate the aforementioned inquiries in an intelligible manner.

Viewing neoliberalism as an interdiscursive epistemic shift necessitates a set of revisions in Foucault's somewhat narrow focus on two traditions; namely, the German ordo-liberals and the American neoliberals, with Austrian economists functioning as "intermediaries"—without delineating the epistemological and methodological differences between the American (Chicago) and the Austrian schools, or the political variations among the Continental tradition.[1] Undoubtedly, Foucault's reading of neoliberalism was informed by the historical period when he delivered his lectures (Lemke 2002; Tribe 2009), and the broader European context of the late 1970s partially explains his focus on the writings of German ordo-liberals as the architects of the German "miracle" and the French interpretations of American neoliberals as part of the intellectual backdrop for the beginnings of the neoliberal transformation of the welfare state in France (Foucault 2008:194–207).

Our discussion develops and complicates Foucault's reading, taking it in two directions. First, unlike Foucault who considers Austrian figures as intermediaries between German ordo-liberals and Chicago neoliberals but treats their insights mainly within the rubric of the former tradition, we highlight the Austrian school as a standalone alternative (with non-modernist epistemology, anti-formalist methodology and non-equilibrium ontology) to North American post-war neoclassicism (Caldwell 2004)—even though it shares a common pro-market orientation with the Chicago school (Peck 2010; van Horn and Mirowski 2009). This reading also registers important differences that separate Austrian neoliberals from ordo-liberals. The latter group of scholars, given their emphasis on the indispensability of the governmental-institutional framework of markets, may even be considered as unintentionally revealing their post-market characteristics: while endorsing the logic of competition as a socially beneficial model, ordo-liberals consider governmental action necessary for the institution of markets. Ordo-liberals, whose influence waned in the 1960s, will remain in the margins of our story, appearing towards the end as the missing link that enables us to clarify the Austrian position regarding the state.

Second, while Foucault narrates the development of the Chicago school in its rivalry with post-war Keynesianism, we trace the implications of another, equally relevant divide within North American neoclassicism, between its Marshallian and Walrasian schools (De Vroey 2009), which maps onto the pro-market/post-market divide articulated above. The "freshwater" economists at the University of Chicago, with their use of partial equilibrium analysis, representative agents and evolutionary metaphors, and their focus on the relationship between law and economics, had a distinctively Marshallian bent—albeit with significantly more pro-market policy prescriptions than their social reformist British predecessors. In contrast, the "saltwater" economists at MIT and the Cowles Commission, with their focus on devising incentive-compatible mechanisms that aim to make up for the welfare-reducing consequences of opportunistic behaviour under information asymmetries, display clear post-market tendencies, and because their theoretical models are derivations from post-war (Walrasian-inspired) general equilibrium theory, are sometimes referred to as

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

post-Walrasian economists.[2] A recent and stark manifestation of the divide, for instance, may be observed in the debate on the causes of and necessary remedies to the 2008 Crash, between saltwater post-market economist Krugman (2009), who advocates for financial market regulation and a return to Keynesian demand-management policies, and freshwater pro-market economist Cochrane (2011:38), who argues that problems that plague markets will equally influence governmental bodies and that debt-financed fiscal policies, rather than stimulating the economy, will make the public "poorer".

Differentiating between the Austrian, the Chicago and the post-Walrasian skeins, our reading differs from most representations of neoliberalism. The Austrian and the Chicago schools, given their shared pro-market characteristics and institutional entanglement, are usually treated without attending to their pertinent theoretical differences (eg Harvey 2005), whereas post-Walrasian economists, many of whom identify with the left, some even writing books exploring the economics of socialism (eg Stiglitz 1996), are rarely studied under the rubric of neoliberalism. Nevertheless, without an account of the post-Walrasian tradition as a post-market form of neoliberalism, it is difficult to understand the extent to which neoliberal reason has become an interdiscursive horizon that enframes modern mainstream economic theory and policymaking. Discourses that criticise economisation (such as ours) are marginalised because many posit post-Walrasian post-market interventionism to be the only "viable" alternative to the now largely discredited Chicago-style neoliberalism. For this precise reason, it is all the more necessary to investigate whether or not the post-Walrasian approach offers a genuine alternative that problematises the epistemics of economisation and confronts the ontological project of neoliberalism.

A contextualised historical genealogy of the entangled development of the Austrian, the Chicago and the post-Walrasian traditions situates them along the horizon of post-war neoliberalism. (While these three approaches stand out as important nodal points, they obviously do not exhaust the horizon, and other schools of thought are also referred to throughout the article to better calibrate our mapping.) In the following section, we offer a brief summary of Foucault's reading of German ordo-liberalism and American neoliberalism. The next two sections respectively deal with the legacy of three theoretical confrontations of the inter-war era, viz the Keynesian critique, the socialist calculation debate, and the Marginalist controversy; and with the institutional context of the post-war North American academia, from the Cowles Commission to the University of Chicago. These discussions prepare the ground for a mapping of the forms of neoliberal reason that is organised around four axes: representations of opportunism, the problem of information/knowledge, uses of evolutionary metaphors, and theories of the state and its functions. We conclude by proposing three different avenues to criticise neoliberalism as an interdiscursive epistemic horizon.

A Constitutive Tension of Liberalism

According to Foucault, neoliberalism emerged in order to resolve a constitutive tension of liberalism: "Liberalism must produce freedom, but this very act entails the establishment of limitations, controls, forms of coercion, and obligations relying on threats, etc." (2008:64). Because the principle of producing freedom is

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

predicated upon "the creation [of] a formidable body of legislation and an incredible range of governmental interventions to guarantee production of the freedom needed to govern" (64–65), the organisation and management of the conditions of freedom inevitably entail the expansion of governmental control (see also Tribe 2009:687). For classical liberalism, governments were envisioned—most vividly in the writings of Adam Smith—to play a role in protecting private property, diffusing the power of monopolies and supervising the smooth functioning of the market as the realm of economic freedom (Medema 2009:22–25). Soon enough, governments' minimal but constitutive role in manufacturing and maintaining economic and social freedoms began to expand. Nineteenth-century American governments, for instance, established a competitive domestic market with the help of protectionist tariffs and anti-monopoly legislation. During the New Deal era, depression and mass unemployment necessitated labour market regulations, welfare measures, social security, and even direct government investment in the economy (see also Polanyi 1944). Though undertaken in the name of advancing certain freedoms, these measures entailed limitations on various other freedoms and began to be seen as interventions that impede "value-creating" economic activities.

According to Foucault, this was a recurring crisis of liberalism that both ordo-liberals and American neoliberals aimed to address in similar yet distinct ways. In the context of post-fascist Europe, brought to ground zero by Allied carpet-bombing, ordo-liberalism aimed at reconstructing the German state and society around the constitutive principle of "competition" (Foucault 2008:120). According to the ordo-liberal notion of *Vitalpolitik* (the politics of life), the aim of social policy was to construct "a social fabric in which precisely the basic units would have the form of the enterprise" and transform "the market, competition, and so the enterprise, into what could be called the formative power of society" (148). Ordo-liberalism's answer to liberalism's internal deadlock between freedom and its limitations was to transform the state through modelling its mode of exercising political power on the principle of competition (see also Vanberg 2001). Highly critical of the "naïve liberalism" of classical liberals, ordo-liberals emphasised "the essential positive role that government has to play in creating and maintaining an appropriate framework of rules and institutions that allows market competition to work effectively" (Vanberg 2001:42; see also Foucault 2008:ch 6). Because ordo-liberalism acknowledges the need for intervention at the constitutive level and embraces a vision of "social market economy", it could be considered a post-market discourse. Ordo-liberals have no qualms about employing the state as long as it is neutral, by making competition the sole principle according to which government can intervene and implement social policy and by making "the market economy itself … the principle, not of the state's limitation, but of its internal regulation from start to finish of its existence and action" (Foucault 2008:116).

Conversely, representatives of the Chicago school pushed this formula to its limits by extending economic analysis both to previously unexplored economic domains (eg the theory of human capital) and domains that were formerly considered to be non-economic (eg the theory of discrimination). In contrast to ordo-liberals, whose aim was to rebuild the government based on a new code and establish rule of law against the backdrop of memories still fresh from the fascist usurpation of the state across Europe (108–222), American neoliberals positioned themselves against the

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

big government of the New Deal and drew from Jeffersonian/libertarian tendencies already installed in the post-colonial American experience (216–219). In opposition to a federal government, which was increasingly involved with the governance of social life (from the labour market to the household) through apparatuses of the welfare state, American neoliberals developed alternative models and policies recasting the subject of social rights as an economic agent, *homo economicus*, and in the limit, "as an entrepreneur of himself [sic]" (226). Accordingly, the concept of the economic agent "as someone who pursues his own interest" and "who must be left alone" (270) became the grid on which governments began to organise social life. *Homo economicus*, as the "grid of intelligibility" (253) of the biopolitical mode of governmentality, is not only a representation of the subject as an "eminently governable" (270) entity that understands and responds only to the language of economic incentives, but also functions as a conceptual component of a decentralised framework for the "the restriction, self-limitation, and frugality of government" (271).

Within this frame of governmentality, neoliberal thought occludes the *performative* nature of the figure of *homo economicus* and takes it to be *descriptive* of the anthropological subject's reality.[3] Premised on an implicit assumption that subjects are always pre-equipped with a particular *savoir-faire* that enables them to comprehend and respond appropriately (and in a non-random and predictable manner) to economic incentives (however defined), neoliberal thought claims that it merely "conducts" their behaviour, from an arm's length, by emulating the competitive logic of the market. However, this claim is misleading not only because the figure of *homo economicus* fails to account for the complex and overdetermined nature of the subject, but also because, to be successful, the neoliberal project needs to actively propound opportunism at the subjective level (see also Fine and Milonakis 2009). Far from simply being a "conduct over conduct", the neoliberal ontological project therefore *demands*, and on occasion *elicits*, *homo economicus*-like behaviour from subjects.[4]

Since the Chicago and Austrian traditions flourished, in part, in reaction to the post-war welfare state and its involvement in the governance of social life, they should be considered within the broader disciplinary and policy context of the period. In the immediate aftermath of WWII, mainstream economics was dominated by Walrasian general equilibrium theory (largely developed at MIT and the Cowles Commission), and modern welfare economics was built on the theoretical frameworks, behavioural assumptions and epistemic postures provided by this particular wing of post-war neoclassicism (Madra and Adaman 2010). In order to understand the rise of these discourses of economisation, we need to turn our attention to the controversies and confrontations of the inter-war years, to a period when theoretical divisions and differences among the Austrian, Chicago and Cowles/MIT approaches first began to crystallise.

The Theoretical Legacies of the Inter-War Years

Standard accounts of the Marginalist Revolution identify three different sources of neoclassicism: Jevons in Manchester, Walras in Lausanne, and Menger in Vienna. Yet, during the inter-war years the Austrian school began to distance itself from

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

the neoclassical tradition and, as evinced by the writings of Hayek, Kirzner, Lachmann, Rothbard and others, began to define itself as a distinct approach that eschews mathematical formalism, foregrounds purposeful entrepreneurial activity around the concept of tacit knowledge, and conceptualises markets as competitive, non-equilibrating and evolving processes. Given the gradual consolidation of neoclassicism (in the Marshallian and Walrasian approaches) around a mathematical apparatus modelled on late nineteenth-century physics and a narrowly defined economic rationality of *homo economicus* operating in a static world of perfect information and equilibrium, it becomes necessary to account for a number of theoretical confrontations and controversies that took place during the inter-war years (see also Caldwell 2004; Mirowski 1989). Along with the Keynesian revolution and the Economic Calculation debate between the Austrian school and Walrasian socialists, it is necessary to discuss the so-called Marginalism controversy that led to the formulation of selectionist arguments by Chicago economists in the aftermath of WWII.[5]

The Keynesian challenge to the inter-war neoclassical *laissez faire* doctrine and the Austrian charge against the Walrasian socialism of Lange and others were contemporaneous, indicating that certain political, ontological and above all methodological rifts existed within the neoclassical tradition. As the Marshallian wing gained prominence within the discipline after WWI and throughout the period leading up to the stock market crash of 1929, a strong belief in the automatic and self-equilibrating dynamics of market forces established *laissez faire* as the dominant logical policy prescription (Bernstein 2001). In the 1930s, however, as the recession deepened into a depression, other voices grew increasingly vocal. The importance of uncertainty in investment and consumption decisions formed the central thrust of the Keynesian critique against the *laissez faire* doctrine (Keynes 1937, 1964 [1936]). Keynes argued that since it is impossible to domesticate uncertainty by assigning probabilities to various possible future states of the economy, investors and consumers lose confidence and refrain from embarking on growth-inducing economic activity. In particular, when the economy is in recession and confidence levels decline, expansionary monetary policies (eg reducing the discount rate, increasing the money supply) will fail to instigate growth, making government intervention through fiscal policies a necessity.

In contrast to the *laissez-faire* neoclassicism that Keynes challenged, the Walrasian neoclassicism of Lange that the Austrians targeted during the Economic Calculation debate (in the late 1930s and early 1940s) was decidedly socialist. The debate was about whether rational economic calculation was possible under state ownership of means of production (Adaman and Devine 1997). While Walrasian socialists, using general equilibrium analysis, claimed that a central planning board could arrive at a market-clearing price vector through trial and error, Austrians argued this was not possible: for Mises, no prices could be obtained for capital goods under socialism as this would be nothing more than an internal transfers of goods; Hayek added an epistemological twist to the critique by claiming that the information needed to calculate the market-clearing price vector could not come to existence under socialism (Hayek 1935). Underlying Hayek's criticism was the difference between information and tacit knowledge: while the former refers to codifiable and

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

transferable data, the latter is a distinctly Austrian notion and refers to the fragmented nature of any knowledge that emerges in the dynamic and evolving process of competition and entrepreneurial activity (Adaman and Devine 2002).

As the Austrian approach drifted further away from the general equilibrium framework of the Walrasian neoclassicism, the Keynesian opposition voiced its doubts concerning the *laissez faire* interpretation of the standard neoclassical model. Meanwhile, the Chicago approach began to emerge as a distinct tradition, partially due to Chicago economists' attempt to theorise markets as *selection mechanisms* in response to the Marginalism controversy. Recall that in a series of papers, a number of empirical economists had posed a simple question (Hall and Hitch 1939; Lester 1946): do individual entrepreneurs *really* employ marginal calculus in making their production decisions? Based on survey results, they had claimed that almost all followed certain rules of thumb, routines and other criteria based on past experience. The central thrust of the response was to argue that even if each and every individual firm followed a different (and non-marginalist) decision criterion, the industrial average would still tend towards the pattern of behaviour as predicted by neoclassical theory. According to Alchian (1950), it would be *the selection mechanism of market forces* that ensured the industry average, the hypothetical (Marshallian) "representative firm" that approximates the behaviour of the profit maximising firm. In the case of Friedman, since the selection mechanism would make sure that firms that "approximated behaviour consistent with the maximisation of returns" would survive regardless of how actual firms behave, it is "not at all unreasonable" to construct models that assume that individual firms maximise expected returns (1953:22). Following a slightly different reasoning, Becker (1962) made a similar argument with respect to the use of utility maximising behaviour in economic models—regardless of how irrational individual households behave, representative agents would have to adjust consumption according to the law of demand in response to changes in relative prices. Chicago economists argued that as long as the standard model had predictive powers (and the market as a selection mechanism confirms this), there was no need to ground it empirically or axiomatically.

A significant amount of intellectual energy in the post-war era was devoted to closing the gap that the Keynesian challenge introduced between macro- and micro-economics. In the North American context, while the neoclassical-Keynesian synthesis remained the dominant theoretical and policy framework until the 1970s, after the breakdown of the Phillips Curve, both the MIT/Cowles and the monetarist Chicago approaches separately ventured to provide micro-foundations for macro-economic models of the economy. While the Economic Calculation debate subsided in the aftermath of the war, it resurfaced during the 1980s, when a rejuvenated Austrian tradition reissued its critique of Walrasian neoclassicism and stimulated discussions on socialist economic models (Adaman and Devine 1997). Finally, the Marginalism controversy has led to further consolidation of the Chicago approach around an understanding of market competition as a process akin to natural selection—which also had the added advantage of serving as an alternative to the auction metaphor used in Walrasian general equilibrium analyses (Madra 2012).

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

The Institutional Context in the Post-War Era

In the post-war era, the controversies and challenges related to the neoclassical tradition were crystallised by fault lines that divided it into three camps. The MIT/Cowles group initially began by constructing Walrasian models of the economy, ground up from the axioms of rational choice as an inter-related system of markets (Arrow and Hahn 1971; Debreu 1959) and proceeded to the more general project of establishing the conditions under which individual and collective rationalities can be reconciled either through price or voting mechanisms (Arrow 1963). Once the formalist program of developing abstract models of the economy with a minimum number of assumptions and the greatest degree of generality was exhausted (Rizvi 1994), and dominance of the neoclassical-Keynesian synthesis came under attack in the 1970s, they turned to the study of market failures arising from information problems. Members of the Chicago school remained in the shadows and on the defensive until the 1970s, choosing instead to concentrate on partial equilibrium analyses of various industries and patiently advocating for their deregulation. They extended "the economic way of thinking" to numerous social, political, legal and cultural problems by developing models based on the assumption that individuals maximise their utility functions (where arguments change depending on the circumstances) subject to some constraint (usually time, but typically anything scarce)—without ever questioning the veridicality of the utility construct. Finally, the Austrian tradition, while remaining politically (and institutionally) close to the Chicago school, methodologically and epistemologically drifted away from the neoclassical fold and developed into an evolutionary and constitutionalist framework (Caldwell 2004). Nevertheless, the intertwined history of these three outlooks within the neoliberal horizon cannot be told without giving due attention to their institutional context.

On one end of the spectrum, there is the Cowles Commission, a think-tank which was founded in Colorado in 1932, then moved to the University of Chicago in 1939, and finally in 1955, as a result of growing methodological and political disagreements between associates of the Commission and members of the then-emerging Chicago school, settled into its current home at Yale University (Mirowski 2002:232–308). Many early affiliates were European *émigrés* with left-wing (interventionist) tendencies and a strong training in mathematics and engineering sciences (eg Hurwicz, Lange and Marschak). During its early years, the Commission placed special emphasis on econometrics, optimal planning, linear programming and operations research in line with its "social engineering" aspirations. Later on, however, with Arrow, Debreu and Hahn leading the charge, its focus shifted towards theoretical general equilibrium analysis and social choice theory (see also Arrow 2009). Finally, once Commission affiliates realised the limitations to the project of establishing the micro-foundations of an economy-wide equilibrium with a sufficient level of generality, they turned their attention to the design and implementation of incentive-compatible mechanisms that modify market structures (Florenzano 2010; Lee 2006).

At the other end of the political spectrum, there is the story of the Volker Foundation and the Mont Pèlerin Society, with Hayek as the protagonist. After the war, Hayek also relocated to the United States along with other European *émigrés*, where he was

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

approached by the Volker Foundation, a pro-market foundation aiming to popularise ideas against the institutions of the New Deal and a culture of government control over the economy (van Horn and Mirowski 2009), to write an American version of *The Road to Serfdom* (Hayek 2007 [1944]), a book argued that "the totalitarian trends inherent in the process of central planning of economies and societies" (Hayek 1994:17) were the ultimate causes of the rise of Fascism and Communism in Eastern Europe (see also Foucault 2008:108–122). Later on, after Hayek's bid to secure a tenure at the University of Chicago Economics Department fell through, in 1950, the Volker Foundation funded his seat on the Committee on Social Thought at the same university (Hayek 1994:126).[6] At that point, Hayek was already an important figure in connecting the economics department with the Volker Foundation and enabling the formation of the neoliberal character of the economics, business and law departments at the University of Chicago (van Horn and Mirowski 2009). Hayek's role in founding the Mont Pèlerin Society in 1947 and in raising funds for it from institutions such as the Volker and Rockefeller Foundations should also be noted. The Society has been particularly instrumental in linking the ordo-liberalism of the Freiburg school with the neoliberalisms of the Austrian and Chicago schools: among its members and past presidents were Hayek, Eucken, Röpke, Lutz, Friedman, Alchian, Stigler, Coase and Becker, as well as public choice theorist Buchanan and development economist Lal. The circle closed in 1962 when Hayek took a position at the University of Freiburg (home of German ordo-liberals Eucken and Böhm) until his retirement in 1968.

This intricate web of institutional connections between the three variants of neoliberalism (Cowles' influence at Chicago, the Mont Pèlerin Society's role in bringing American and European neoliberals together, and Hayek's role in establishing the Chicago school) should not blind us to their differences. The need to account for the resilience of neoliberalism as an ontological project and its unfolding into a political horizon necessitates us to carefully register points of antagonism as well as convergence. What turns neoliberalism into a truncated discursive horizon is precisely the fact that there are different schools with distinct methodologies and political visions that struggle against one another while remaining in fidelity to a common set of epistemological and ontological presuppositions and objectives. While Foucault's reading of German ordo-liberals and American neoliberals focuses on their treatment of the state and the economic agent, the following discussion will also consider how markets are conceptualised and how the question of information (or knowledge, depending on the school of thought) is handled by each of the three forms of neoliberal reason.

Forms of Neoliberal Reason

Neoliberal governmental reason posits "competition" as its code of conduct, and aims to govern the social in a decentralised manner by manipulating incentive structures that subjects—individuals, households, enterprises, bureaucrats etc.—face. Yet each form has a different notion of the subject, of how this "model" subject conducts itself, of how competition functions as a code of conduct, and of how the self-conduct of these "competitive" subjects is supposed to be aggregated

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

and governed. Thus, each form defines and formulates "the economic problem" in its own unique way. In exploring the differences among these three forms of neoliberal reason, we will concentrate on four shared problematics that cut across theoretical and practical concerns: representations of the subject, market limitations and the problem of information/knowledge, the use of different evolutionary models of social ontology, and the role of the state in relation to the market and society. Highlights of the discussion are summarised in Table 1.

Representations of Opportunism

All three positions along the neoliberal horizon employ the theoretical construct of *homo economicus* as "the grid of intelligibility" or "the surface of contact between the individual and the power exercised on him" by the government (Foucault 2008:252–253). All three accentuate different aspects, however: while the Chicago and Austrian traditions approach opportunism in a celebratory manner, post-Walrasians argue that opportunism undermines social welfare. For the typical Chicago economist, *homo economicus* is a risk-taking *self-entrepreneur* who invests in personal "human capital" and whose opportunism improves social welfare. For the Austrian economist, opportunism enables the *entrepreneur* to exploit profit opportunities by articulating tacit knowledge in a cognitive discovery process, thereby animating the price mechanism. In contrast to the Chicago (and the post-Walrasian) model of the economic agent as an optimising machine, the Austrian school developed a distinct understanding of human behaviour as an entrepreneur who, while responding "rationally" to the incentives that the institutions of private property and competitive markets provide, does not "solve" an optimisation problem—if only because Austrian economists do not conceptualise the economy as a Cartesian domain with well-defined choice sets and objective functions (Hayek 1948; Kirzner 2000).

In contrast to these celebratory approaches, post-Walrasian economists emphasise situations where opportunism leads to suboptimal outcomes. As exemplified in the Prisoner's Dilemma game, agents' opportunism can lead to social outcomes that may only be improved by either redesigning the game and thus changing the pay-off structure (viz turning it into a repeated game) or stepping outside of the individualist-formalist ontology and introducing institutions (eg norms, states) or "pro-social" behavioural attributes (eg trust, reciprocal behaviour) (Adaman and Madra 2002). Since the regulation and correction of the undesirable consequences of opportunism is the *raison d'être* of the post-Walrasian mechanism-design approach (eg Hurwicz 2008), the privileged agent for this approach is not the opportunist economic agent but the *mechanism designer*—who possesses the expert knowledge to correct market failures by designing incentive-compatible institutions.[7]

The very presence of these two contrasting positions (celebratory and critical; pro-market and post-market) along the neoliberal horizon is in part what gives the latter its hegemonic resilience in the face of cyclical crises in capitalist economies. During the 1970s, for instance, when regulatory structures weighed heavy

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

Table 1: Comparing the post-Walrasian, Austrian and Chicago approaches

	The post-Walrasian approach	The Chicago approach	The Austrian school
Theory of subject	Opportunism; optimising behaviour; strategic behaviour under imperfect information Critical of opportunism	Opportunism; maximisation of expected-utility If the individual is not rational, the market will be Celebratory of the pursuit of self-interest	Rational pursuit of interests Entrepreneurial activity articulates and mobilises **tacit knowledge**, which is the source of innovation Celebratory of the pursuit of self-interest
Locus of agency	**Mechanism designers** are the privileged agents guarding society against opportunism	Theories of human capital propose that everyone should be an entrepreneur, a **self-entrepreneur**	The privileged agents are **the entrepreneurs**
Conceptualisation of competition and historical change	Even if there is an overarching **evolutionary process**, it does not select the most efficient outcomes due to **path dependency**	Competition is akin to the **natural selection** process The economic approach is **applicable to all** social phenomena	Property rights and markets emerge through **cultural evolution** Critical of the use of mathematics, equilibrium analysis, and narrow notion of rationality
Limitations of markets	Market failures are due to **asymmetric information**, and they are **endemic**	Market failures are due to **transaction costs**, and they can be remedied by the introduction of new markets	A market is a dynamic **cognitive discovery process**
The role of state	Adverse selection and moral hazard problems require the design of **incentive-compatible mechanisms** Post-market	**Government failures** are due to lack of markets; **Monopolistic** structures are permissible; **deregulation** should be actively pursued Pro-market	Very critical of **rationalist constructivism** **Human action** vs **human design** Pro-market
Theory of state	Conceives of **the state as a nexus of principal-agent relations**. The legitimacy of the decision-makers is based on the social welfare function "*Who will guard the guardians?*"	Conceives of **the state as a market**, where opportunistic bureaucrats arbitrate the demands of competing interest groups. Yet still, the state should be replaced by the legal system	Conceives of **the state as a site of rent-seeking and corruption**, as a source of inefficiency. A constitutional framework should delimit the discretionary powers of the state
The property regime	**Ownership** structure does not matter	**Ownership** structure matters	**Ownership** structure matters
The "economic problem"	"Prisoners' dilemma" "*Markets are never enough*"	"Invisible hand" "*There aren't enough markets*"	"Spontaneous order" "*Markets are products of cultural evolution and superior to human design*"

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

and society was perceived to be suffering from "institutional sclerosis" (Olson 1988), demands for deregulation were voiced and the public embraced opportunism as a positive force to revitalise the economy. Yet, during the recent financial meltdown, when the negative consequences of opportunistic behaviour became widely and clearly visible, the post-Walrasian approach gained the upper hand and responded to the demands for regulation (Stiglitz 2010). Needless to say, there are many other factors that overdetermine the shifts and oscillations between the two poles. Our point is that the mere presence of two contrasting positions constrains the debate to the neoliberal horizon, forcing many of us to endorse the opportunism assumption without ever questioning its plausibility (see also Özselçuk and Madra 2010).

The Problem of Information/Knowledge

The Walrasian tradition was confronted with the "information" problem already in the context of the Calculation debate, as Austrian economists embarked on developing the concept of "tacit knowledge" and the notion of "market-qua-process" as an alternative to the assumption of perfect information and the equilibrium construct of market (Caldwell 1997). The MIT/Cowles economists—many of whom were European *émigrés* with left-leaning politics and a penchant towards planning in line with the Walrasian framework (Hagemann 2012)—set out from the absence of future markets and information asymmetries and backtracked to the problems of *adverse selection* (due to the limitations on information necessary to adequately distinguish among contracting agents) and *moral hazard* (due to the difficulties in monitoring and assessing the performance of contracted agents). Out of this research program emerged new information economics, based on an "agency-theoretic" understanding of information as a "power" concept (Bowles and Gintis 1993). In contrast, the Chicago approach simply extended their cost–benefit analysis framework to the question of information and treated it as just another commodity that can be bought and sold at the right price (Stigler 1961). A rational actor, faced with the costs of retrieving information (ie "search" costs), will assess the potential benefits and undertake the necessary expenditures only if the opportunity cost of not doing so is not greater.

This difference between information as "power" and as "commodity" manifests itself in how each approach theorises non-market institutions of "command". For the Chicago approach, vertical institutions of command, such as firms and governments, would replace the price mechanism, a horizontal institution, only when the cost of conducting a certain economic activity through the price mechanism exceeds the costs of conducting it by means of vertical institutions. This "self-reflexive" application of the logic of cost–benefit analysis to determine the scope of markets amounts to elevating the market into a meta-model where everything can be treated as commodities. Indeed, Coase's (1937) highly influential "The nature of the firm" article had already laid the groundwork to this end: firms come to existence when the cost of handling transactions (needed to produce goods and services) through markets exceeds the cost of handling them in long-term contracts. In contrast, while acknowledging the importance of transaction costs,

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

post-Walrasian approaches theorise firms essentially as institutional solutions to the absence of futures markets and informational asymmetries. In particular, the "efficiency-wage" models provide analyses of how hierarchical "power" relations develop within firms in order to delimit the welfare-reducing effects of opportunistic behaviour (Akerlof 1982; Bowles and Gintis 1993; Shapiro and Stiglitz 1984).

The Austrian tradition differs from the other two in its refusal to posit an idealised notion of market as a reference point to measure the extent of "failure" (Hayek 1948). Abandoning such idealised equilibrium constructs, Austrians were able to formulate a new concept of markets' accomplishments without reverting to claims of efficiency and perfection. Kirzner argues that markets do not function to compute "the solution to that set of simultaneous equations marking out the relevant optimal pattern of allocation" (2000:80). Rather, their function is to overcome the "knowledge" problem by promoting coordination among market participants and exploit available "opportunities of mutually gainful exchange" (81). As long as markets perform this function, they cannot be considered *imperfect*—even if they exhibit "failures" when compared with the idealised model where imperfections do not exist. In fact, when governments intervene to make up for such "failures", they are "obstructing a process of discovery without offering any substitute for it" (82). Yet, Austrian economists do consider a particular kind of limit to markets: the "institutional prerequisites" without which "the market cannot operate" and which "cannot be created by the market itself" (83). The constitution of markets requires the establishment and governance of a juridico-institutional framework (the rule of law guaranteeing property rights and contractual freedom and enforceability) that internally regulates the entrepreneurial game (Foucault 2008:173; Vanberg 2001:77–88).

For Chicago economists, market failures are caused by transaction costs. Hence, they formulate the information problem in terms of the costs and benefits of retrieving information and argue that market failures can be efficiently resolved only by introducing new markets where information is traded. For post-Walrasian economists, market failures stem from inherent incentives for the strategic manipulation of asymmetric information and can be solved by designing safeguards against opportunism. Recognising the possibility of failure and theorising its solution, these two approaches define their object of intervention and prepare the conditions of the expansion of the logic of market. Finally, for Austrian economists, because markets cannot create and maintain the legal and institutional framework necessary for their smooth functioning, this task is assigned to the government. As a result, all three positions, albeit in different ways, contribute to the materialisation and expansion of opportunism through social institutions by advocating to replace them either with markets or market-like institutions, that is, with *dispositifs* that are designed to expect and demand entrepreneurial engagement, competitive behaviour and opportunist vigilance from its participants to function properly.

Uses of Evolutionary Metaphors

Confirming Marshall's famous prediction ("Biology is the Mecca of economics"), all three approaches employ evolutionary metaphors in conceptualising the market

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

adjustment process and turn these evolutionary metaphors into interpretative meta-models to theorise the formation and functioning of social organisations, including markets and firms. The introduction of evolutionary metaphors to explain not only how markets function but also how they come to exist or reproduce themselves, is an important step towards *economisation* through *naturalisation* of the constitution of economic as well as non-economic institutions (eg, organisational forms, social norms, codes of conduct).[8]

Austrian economists consider markets as dynamic, non-equilibrating, evolutionary processes that facilitate the dissemination of information, articulation of tacit knowledge and exploitation of available profit opportunities (eg Kirzner 1992). In his later writings, especially in *The Fatal Conceit* (1988), Hayek extended this evolutionary perspective to analyse how the institutions of market societies emerged and evolved, explaining their emergence as an outcome of cultural evolution. Nevertheless, while Hayek's evolutionary turn was in line with his overall critical stance towards rationalist and constructivist forms of social engineering, for many within the Austrian tradition it appeared to contradict his understanding of rational liberalism and liberal constitutionalism. Reflecting on the enduring influence of German ordo-liberals' critique of the "naïve naturalism" of classical liberals, Kirzner notes that it would be wrong to rely only on "spontaneous social forces" to foster market institutions (2000:83). Again, Vanberg (2001:76) (a member of the Freiburg school) argues for a liberal perspective that sees a role for both "deliberate legislation in constraining evolution, and in designing institutions" and "evolution in assisting and testing our efforts in deliberate institutional design".

In contrast to the MIT/Cowles economists, who set out from the idealised, auction-based model of general equilibrium theory and arrived at the conclusion that real market outcomes are bound to fail to the extent that they do not satisfy the idealised conditions of the model, Chicago economists had already begun to employ evolutionary metaphors and develop selectionist market models in the early 1950s in response to the Marginalist controversy (see above). Like the Austrians, they also did not limit their otherwise "pragmatic" use of evolutionary metaphors to explain only the functioning of markets. Elevating competition-qua-selection into an interpretative meta-model, they explained the survival and extinction of different institutional forms (eg feudal institutions, small-scale capitalist firms, property regimes) as an outcome of a selection process. For instance, Oliver Williamson, an economist who developed Coase's nascent theory of the firm into a theory of organisations and institutions, argued that "institutions emerging from the competitive process will be *comparatively* efficient" (Williamson 1993:107).

In response to the increasing appeals to evolutionary metaphors that served to justify the existing constellation of the institutional landscape—which took the form of "market triumphalism" in the post-communist context (eg Cheung 1992)—post-Walrasian economists invoked the concept of path dependency and other concepts of evolutionary theory, such as "differential replication" and "group selection" to argue that "the inference that survival entails efficiency is unwarranted" (Bowles and Gintis 1993:97). While this objection addressed the Chicago and new institutionalist economists' Panglossian use of evolutionary metaphors (Madra 2012) and countered the triumphalist declarations of capitalism's superiority over a failed

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

communism, it was unable to engage directly with the Austrian notion of spontaneous order, which does not have a universal efficiency claim on self-perpetuating conventions and institutions (eg Sugden 1989). Nonetheless, the post-Walrasian thought remains within the horizon of neoliberal reason. Analogous to how the concept of "imperfect competition" implicitly refers to "perfect competition", the concept of "path dependency" presupposes a central historical tendency; in this case, the unfolding "competitive process" as a meta-selection mechanism that would have "chosen" the more "efficient" institutions if not for "path dependency" and similar limitations over the competitive process. Although post-Walrasian economists invoke path dependency, they also rely on the underlying metaphor of an over-arching selection mechanism (a meta-market) that governs the survival of institutions depending on the extent to which they consider the persistence of "inefficient" institutions as the central question to be answered.

Neoliberal Theories of the State and its Functions in Society

Hayek's critique of constructivist rationalism, "directed against the claim that we can create a desirable social order by discretionary planning and particular commands" (Vanberg 2001:78), is informed by the notions of spontaneous order and cultural evolution. Because "the process of selection that shaped customs and morality could take account of more factual circumstances than individuals could perceive", Hayek writes, "the tradition is in some respects superior to, or 'wiser' than, human reason" (1988:70). Yet, even in its Austrian form, it would be incorrect to claim that neoliberal reason is disengaged from using the government to accomplish things in society [with the exception of Rothbard (2009), who argues that even law could be managed privately]. If neoliberalism comes into its own as a counter-revolution against the post-war welfare state, neoliberal reason inherits—and aims to transform—a state that is already heavily involved in the social field, and materially exists in a relatively dispersed set of institutional *dispositifs* and functions that regulate and govern not only the market but also an entire life-world. Neoliberalism does not necessarily entail the withering away of the state, but rather the reconfiguration of its relation to society through *economisation*.

Keynesian aggregate demand management (coming into its own during WWII), combined with the regulative institutions of the New Deal, eventually brought the US economy out of the Depression and placed it onto a sustained growth path (eg Duménil and Lévy 2011; Harvey 2005). Due partly to this historical context, to the socialist leanings of some of its important figures who shared a modernist commitment to "social engineering" and to its research engagements with the US Military and its affiliated think-tanks, the MIT/Cowles approach was quite sympathetic to government involvement in the economy (Mirowski 2002:232–235). If we limit ourselves to its standard general equilibrium framework, an explicit reference to the role of the state appears in some significant sense only in the infamous Second Welfare Theorem (Arrow and Hahn 1971; Debreu 1959), according to which, if initial endowments are redistributed (by the state) prior to market exchanges, a socially desired final equilibrium outcome can be chosen among all possible

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

Pareto-efficient outcomes. Consequently, from the perspective of general equilibrium analysis, a case could have been made in favour of re-distribution of property rights by the state to reach "a desired social outcome". Equally controversially, since its assumptions cannot be met in "real-world" economies (eg when there are externalities, or certain public goods cannot be provided by competitive markets, or available information is less than perfect, or certain future markets are missing), the general equilibrium model sanctions further government interventions to remedy these "market failures" (Hahn 1984).

In the post-war era, the welfare state extended its reach and control via social policies; less through "wealth redistribution" and more by remedying market failures and correcting the unlevelled playing field. As the vanguards of the neoliberal counter-revolution, Chicago economists pursued research on all domains of social life where they found an institutional device of the welfare state, and tried to produce reform policies according to the selectionist logic of markets: areas studied included the household, education, the labour market, discrimination, healthcare, social security, crime and addiction (eg Becker 1976). Foucault argues that generalising the economic grid in this manner was undertaken not only to render social processes "intelligible", but also with the aim of "*anchoring and justifying* a permanent political criticism of political and governmental action" (2008:246, emphasis added).

Two examples, one pertaining to the correction of "market failures" and the other to the non-economic social policies of the government, may illustrate this point. Consider how the Chicago tradition developed a market-based solution to externality-related market failures, using Coase's (1960) critique of the Pigouvian taxation-based approach. According to the Coase Theorem, as long as all relevant property relations are fully specified and no transaction costs are involved in the relevant exchanges and side payments, there is no need for third parties to become involved to dissipate the problem of social cost (Stigler 1965:113).[9] A third party is required only when the judicial system needs to arbitrate potential conflicts among negotiating parties according to the rule of law (Davies 2010). Plus, if transactions are costly, these costs themselves could be dissipated through the introduction of new "competitive" markets where services to facilitate transactions are exchanged in increasingly efficient ways. In this manner, in response to any demand for corrective government intervention, Chicago economists ask whether government involvement is really necessary and whether it is possible to resolve the problem through negotiations between affected parties—that is, through the judicial system and according to the rule of law. For a critique of a non-economic social policy of the post-war government, we will turn to Stigler's (1970) economic analysis of crime, also considered by Foucault. When dealing with the enforcement of criminal activities, Stigler proposes that since enforcement is costly, its goal "is to achieve that degree of compliance with the rule of prescribed (or proscribed) behaviour that the society believes it can *afford*" (1970:526, emphasis added). The Chicago approach thus submits all public activities to the grid of cost–benefit analysis and turns its "economic approach" into "a permanent criticism of governmental policy" (Foucault 2008:247). To complete the picture, the economic grid is extended to theorise the motivations of the criminal as well. A criminal, according

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

to Stigler, is someone who takes the "risk of being condemned to a penalty" (251).

Even though the main argument of the Austrian tradition's intellectual output was pitched at a philosophically more sophisticated level than the hands-on, industrial-level analyses and policy-relevant groundwork undertaken by the intellectual community of the Chicago Schools of Economics and Law, and despite the fact that the evolutionary conceptualisations of Austrian economists may sound closer to classical liberalism, on practical policy issues, Austrian economists repeatedly sided with the pro-market positions of Chicago neoliberals and against those of the post-Walrasians. On the issue of monopolies, they advocated a hands-off approach, like many Chicago economists (Hayek 1967:73).[10] With externalities, they advocated for their private internalisation *à la* Coase (Littlechild 1979:57–64). On the matter of applying the economic logic to non-economic domains, they embraced the Beckerian framework with the reservation that its "universal, omniscience-based, equilibrium" construct is discounted (Kirzner 2000:270). Yet perhaps most importantly, in contrast to the pragmatist economists of the Chicago school—experts in deregulation and privatisation, who focused on the actual takeover and transformation of the state and judicial apparatuses in the 1980s and 1990s—the Austrian school supplied the ideological ammunition and institutional support for the individualist revolt against the paternalism of the post-war welfare state during the same period (Mirowski 2007:367–369).

In all three forms of neoliberal reason, as the citizen is re-cast as an economic agent who moves in the world by perpetually calculating and systematically responding to incentives, it is only the next logical step to apply the "economic grid" to the internal organisational structure of the government and to submit its bureaucracy to perpetual audits of effectivity, corruption and efficiency. The Austrian contribution to this analysis of the state was to provide an epistemological critique of what they considered to be the logic of an interventionist state; namely, the logic of rational constructionism. Based on this critique, they argued that planning cannot mobilise tacit knowledge as effectively as a competitive discovery process (Hayek 1973; Vanberg 2009). Meanwhile, in a groundbreaking analysis of the assumptions of modern public economics, the Virginia school of public choice (standing in close proximity to, yet distinct from, both the Austrian and Chicago approaches) argued that, since bureaucrats should also be assumed to behave opportunistically, economists must concern themselves with not only market failures, but also government failures such as rent-seeking behaviour and corruption (Buchanan and Tullock 1962; Krueger 1974).

Fairly early on, the post-Walrasian school, partly conceding to this systematic economic criticism of the welfare state and partly acknowledging the severity of the information problem, also turned its attention to developing a theory of organisations in which the behaviour of actors in organisations were analysed as being opportunistic and prone to exploiting strategic informational asymmetries (Arrow 1974, 2009). This path subsequently led to the systematic exploration of the conditions under which "informationally decentralised, incentive compatible mechanisms that simultaneously result in decisions maximising the total welfare [can be established with] the voluntary participation of the individuals and

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

balanced transfers" (Florenzano 2010:1071). The mechanism-design approach concerns itself with its applications in auctions, bargaining mechanisms, exchange mechanisms (markets), regulation mechanisms (both of and in firms) and matching problems—in short, wherever social transactions suffer from "thinness" (insufficient voluntary participation), "clogged" information channels, or "incompatible" incentive structures that fail to prevent agents from performing welfare-reducing behaviour or transacting elsewhere (Roth 2008:286). In short, the mechanism-design approach aims to solve economic and social problems not through the actions of bureaucrats or deliberative democratic self-governance, but rather by "micro-economic engineering"—namely, by transforming them into technical problems that can be reconciled through incentive-compatible mechanisms.

Conclusion: De-Politicisation Through Economisation

According to neoliberalism, the economy functions according to immutable and transcendental laws that are micro-founded in the purportedly predictable and non-random behaviour of economic agents. This micro-foundation involves fixing the question of subjectivity around the concept of the economic agent (a purposeful and rational entrepreneur or an expected utility maximising self-entrepreneur or an opportunistic agent), which functions as the "grid of intelligibility", as the "surface of contact" between the government and the individual. Subsequent universalisation of this category itself has led neoliberal reason to represent the entire social field—including both non-market economic and non-economic domains—through its grid of intelligibility. Once categories of politics, cultural difference and historicity are replaced by the transhistorical formalism of an economic grid that draws upon evolutionary models, neoliberal reason posits itself, in part through a strategic war of position within a public sphere that stretches across academic institutions, think-tanks, policy circles and the mass media, as a set of privileged expert discourses (of economisation) that is supposed to furnish governments with policy advice and the general public with opinion on all matters (Mirowski 2007).[11]

The manner in which neoliberal reason and its distinct forms tend to shape actual policymaking can be illustrated, for instance, in the responses that are being devised to address the interrelated dual crises of environmental pollution and natural resource overuse. As elaborated in Adaman and Madra (forthcoming), markets and market-like mechanisms are increasingly deployed to protect the environment: in contrast to the social democratic era where nature was considered to be a public good and governments were obligated to protect it by imposing Pigouvian taxes and setting quotas and standards, the Chicago and the Austrian traditions today forcefully argue for a strict market environmentalism—ie the use of market institutions along with well-defined, enforced and transferable private property rights on environmental assets. This Coasean framework provides the basis both for the privatisation of natural assets and for the marketable permits system. Given that the permits system, with a wide range of applications from air and water pollution control to management of water and land use, requires the determination of a cap

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

(eg a permissible pollution level), the Chicago approach can easily apply different techniques to estimate individual valuations and aggregate them for its determination. In contrast, the Austrians would be sceptical of such "engineering" exercises and rather see the ecological problem tackled only through free interactions of economic agents under the rule of law and private property. Finally, the post-Walrasians, with their emphasis on the existence of imperfect information among actors, do not embrace privatisation or marketisation indiscriminately; they rather express faith in the capability of experts to design proper incentive schemes (such that revealing any relevant private information truthfully will be in best interest of the perpetrator) which will make it possible to establish proper environmental regulations.

The definition of neoliberalism qua economisation of the social, therefore, enables us to read, in addition to the Chicago tradition (as identified by Foucault in his *Lectures*), both the Austrian and the post-Walrasian traditions as forms of neoliberal reason. In particular, even though they emphasise the endemic nature of market failures, argue for remedial institutional design and are genuinely concerned about issues of social justice, post-Walrasian economists continue to posit *homo economicus* as the model of individual behaviour and aim at designing institutions to accommodate market failures that arise from opportunism. Although these "artificial institutions" are intended to incorporate socially sanctioned priorities, they remain within the strictures of the neoliberal ontological project as they demand a social subjectivity that responds to economic incentives in a non-random and predictable manner. At the level of macro-economic policy, even the recent calls for a return to Keynesianism [not only by Krugman (2009), a saltwater economist, but also by Posner (2011), a leading figure of the Chicago Law School as well as a member of the Mont Pèlerin Society] are being countered by demands to justify its implementation as an instrument of economic efficiency and stabilisation rather than a social right in and of itself, and the terms of debate —determined by the neoliberal hegemony—are being all too readily accepted. For instance, Posner (2011:311) can unhesitatingly refer to a "spectrum of respectable macroeconomic theorizing" that "runs from left interventionists to right libertarians", and while acknowledging the impossibility of banishing politics from economic policymaking, calls for enlarging the space for "pragmatic, apolitical, nonideological solutions" (312)—echoing our definition of neoliberalism as de-politicisation. On the post-Walrasian end of the spectrum, the causes of the 2008 crisis are identified in the endemic information problems and the solutions are sought in intelligently designed firm- and consumer-focused regulations (eg Stiglitz 2010). Recent research suggests that this hegemonic truncation of the terms of the debate to a universe of opportunism has deeper ontological implications. In particular, incentive-compatible post-market mechanisms that aim to safeguard institutions against manipulative behaviour may well act performatively, breeding and legitimating opportunistic behaviour (eg Bowles and Hwang 2008). By conceding to the neoliberal rules of the game and conceptualising the role of the government as the appropriate calibration of incentive structures, they also contribute to the de-politicisation of the social through its economisation.

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

The status of the Austrian tradition is no less contested. As noted above, many commentators either fail to distinguish it from the Chicago school or reject the neoliberal designation altogether. Indeed, for some the Austrian tradition is closer to classical liberalism than neoliberalism, particularly because of its notions of spontaneous order and cultural evolution (Caldwell 2010). Yet, even if we left aside their track record on practical policy issues and their ideological and institutional contributions to the neoliberal counter-revolution, they may still be considered as producers of an economisation discourse. In particular, the use of evolutionary metaphors contributes to the de-politicisation of the social, by elevating the logic of competition to the level of a meta-grid that selects the most effective institutional framework. When Hayek and others prefer "a constitutionally limited democracy" to more populist and participatory forms of democratic sovereignty (Hayek 1973:1) and conceptualise the political process as a process of exchange (Vanberg 2009:15), they actively represent the political process through the economic grid. Similarly, by subordinating the determination of the rules of the game to the "test" of evolution, the Austrian tradition effectively proposes to organise political power through the "competitive" logic of markets.

Neoliberalism can no longer be treated as a particular (right-wing) ideological position within a broader political horizon; today, neoliberalism posits itself as a political horizon that can host within it a spectrum of ideological positions, a governmental *reason* that can accommodate a certain degree of political variation and an economic mainstream that can cultivate a range of epistemological and methodological diversity. In making this argument, we do not claim that there is an essence of neoliberal reason, and that the three forms discussed in this paper are different manifestations of this essence. Rather, we argue that neoliberal reason has been historically forged as a heterogeneous field through the concrete theoretical confrontations and institutional entanglements of these three traditions within the broader socio-economic context of the twentieth century (Peck 2010; Peck et al. 2009).

One possible path for future research lies in exploring the aspects of a two-way interaction between the theoretical developments sketched in this paper and the shifts and transformations that have occurred at the level of social formation. One feature of this research agenda would be to study the degree of success (or failure) of the performativity of neoliberal economic theory. It is worthwhile to examine the implications of recent research in the field of behavioural economics as well as performativity studies, which suggest that institutions designed against a presumed opportunism ironically tend to cultivate it (Adaman and Madra 2002; Bowles and Hwang 2008). Another facet of this research agenda would be to study the relationship between the cyclical crises of capitalism and the oscillations and transformations within the discipline of economics (eg Arestis and Sawyer 2004). Investigations to this end would assess the scope and limits of the mainstream self-criticism that emerged in response to self-perceived failings to anticipate, prevent or address such crises—oscillating between pro- and post-market positions without being able to break from the epistemic horizon of the neoliberal ontological project. Finally, in order to reverse the de-politicisation processes that neoliberal theory and policymaking have installed

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

in the past three decades—albeit with varying degrees of success—we need to study and propose ways in which concrete communities around the world can reclaim their economies through democratic, participatory and deliberative mechanisms. To this end, we must reorganise economic practices of production, appropriation, distribution and circulation; redefine what is necessary and what is conspicuous; debate how to share surplus equitably; devise new methods to replenish and care for natural commons that nourish us; and inquire into paths of redistributing abilities and capabilities (eg Amin 2009; Devine 2012; Gibson-Graham 2006).

Acknowledgements

Earlier versions of this paper have been presented in departmental and faculty seminars at Gettysburg College, Uludağ University, Boğaziçi University, İstanbul University, İstanbul Technical University, the University of Athens, and the New School. The authors would like to thank the participants of those seminars as well as Jack Amariglio, Michel Callon, Pat Devine, Harald Hagemann, Stavros Ioannides, Ayşe Mumcu, Ceren Özselçuk, Jamie Peck, Maliha Safri, Euclid Tsakalatos, Yannis Varoufakis, Charles Weise, and Ünal Zenginobuz for their thoughtful comments and suggestions on the various versions of this paper. We would also like to acknowledge the very helpful comments on the paper made by the anonymous referees as well as the editors of *Antipode*. The usual caveat applies.

Endnotes

[1] The first tradition, which Foucault names "the German form" of neoliberalism, developed a novel, constitutionalist framework for the reconstruction of post-war Germany in the form of a "social market economy". The other tradition, "American neoliberals" as Foucault calls them, proposed to analyse the entire social field and consequently calibrate relevant social policy in line with the categories of neoclassical economic theory. Yet, as one of the referees kindly brought to our attention, there are good reasons to distinguish between an "old" (pre-war) Chicago school from a "new" (post-war) one (eg McCloskey 1998). Indeed, the former displays some affinities not only with the ordo-liberal school and its regulative principles (van Horn and Mirowski 2009), but also with the critics who consider forms of market socialism to be more viable then a market capitalism under monopolistic distortions. The latter point can be traced back to Marschak's involvement in the early phase of the economic calculation debate (circa the 1920s), where he not only challenged Mises' position but also supervised the PhD thesis of Cläre Tisch where a precursor of a socialist economic model *à la* Lange can be found [see Arrow's (1991) entry on Marschak, as well as Hagemann (2010)]. In this paper, our focus will be on the post-war and decisively pro-market Chicago school.

[2] The post-Walrasian economics include the new information economics of Arrow et al. and the mechanism-design theory of Hurwicz et al. We distinguish post-Walrasian economics not only from the Chicago School but also from new institutional economics which we associate with an intellectual lineage that descends from Coase and includes Williamson in organisational theory and North in economic history. Needless to say, new institutional economics is an eclectic approach which may draw influences from both the post-Walrasian and Chicago approaches.

[3] In the Anglo-Saxon context, a significant body of literature on governmentality developed during the last two decades, beginning with the publication of *The Foucault Effect*, a collection of essays edited by Burchell et al. (1991). See, eg, Donzelot (2008) and Lemke (2002).

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

[4] According to emerging literature on the performativity of economics (eg MacKenzie 2009), economic models do perform economies, by providing templates for appropriate behaviour and offering blueprints to engineer market (or market-like) institutions: they are not simply models *of* the social reality in which we live, but rather they function as models *for* shaping it (see also Adaman and Madra 2002).

[5] For a more ambitious version of this genealogy, another line of investigation worth pursuing would be the Psychologism controversy where the rationality assumption of mainstream economics has been questioned.

[6] Although Hayek was turned down by the Economics Department of University of Chicago, Van Horn and Mirowski (2009) argue that there is not enough evidence to suggest that associates of the Cowles Commission at Chicago (such as Marschak and Koopmans) blocked the appointment. Notably, Marschak wrote a rather favourable Reader's Report on *The Road to Serfdom*, describing it as a book that "cannot be by-passed" (reprinted in Hayek 2007 [1944]:252).

[7] From the perspective of mechanism design, as long as institutions are incentive compatible, their ownership structures do not matter (Adaman and Devine 1997). This is significantly different from the Austrian and the Chicago positions for which private property is a key institution.

[8] Neither a discussion of the causes nor an assessment of the appropriateness of the increasing circulation of evolutionary metaphors in the post-war period can be made within the confines of this essay.

[9] As others have noted, there is no clear statement of the "Coase Theorem" in Coase's 1960 essay. Medema (1994:63) notes that it was not Coase who first used the term "Coase Theorem", but eminent Chicago economist, Stigler.

[10] Austrian and Chicago economists differ from German ordo-liberals who advocated for the control of monopolies (Foucault 2008:134–137). Here, too, our reference is to the post-war ("new") Chicago school—see endnote 1.

[11] For a meticulous twentieth-century history of how the discipline of economics in the USA got professionalised and attained its public purpose through its cooperation with the government and its various bodies, ranging from the Council of Economic Advisors to the Department of Defence; see Bernstein (2001). See also Sent et al. (2005) for critical perspectives on the volume.

References

Adaman F and Devine P (1997) On the economic theory of socialism. *New Left Review* 221:54–80

Adaman F and Devine P (2002) A reconsideration of the theory of entrepreneurship: A participatory approach. *Review of Political Economy* 14(3):329–355

Adaman F and Madra Y M (2002) Theorizing the "third sphere": A critique of the persistence of the "economistic fallacy". *Journal of Economic Issues* 36(4):1045–1078

Adaman F and Madra Y M (forthcoming) Understanding neoliberalism as economization: The case of the environment. In Y Atasoy (ed) *Global Economic Crisis and the Politics of Diversity*. New York: Palgrave MacMillan

Akerlof G A (1982) Labor contracts as partial gift exchange. *Quarterly Journal of Economics* 97(4):543–569

Alchian A A (1950) Uncertainty, evolution, and economic theory. *Journal of Political Economy* 58(3):211–221

Amariglio J L (1988) The body, economic discourse, and power: An economists introduction to Foucault. *History of Political Economy* 20(4):583–613

Amin A (ed) (2009) *The Social Economy*. London: Zed

Arestis P and Sawyer M (eds) (2004) *The Rise of the Market: Critical Essays on the Political Economy of Neoliberalism*. Northampton: Edward Elgar

Arrow K J (1963) *Social Choice and Individual Values* (2nd edn). New Haven: Yale University Press

Arrow K J (1974) *The Limits of Organization*. New York: W W Norton

Arrow K J (1991) *Jacob Marschak 1898–1977: A Biographical Memoir*. Washington, DC: National Academy of Sciences

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

Arrow K J (2009) Some developments in economic theory since 1940: An eyewitness account. *Annual Review of Economics* 1(1):1–16
Arrow K J and Hahn F (1971) *General Competitive Analysis*. San Francisco: Holden Day
Becker G S (1962) Irrational behaviour and economic theory. *Journal of Political Economy* 70(1):1–13
Becker G S (1976) *The Economic Approach to Human Behaviour*. Chicago: University of Chicago Press
Bernstein M A (2001) *A Perilous Progress: Economists and Public Purpose in the Twentieth Century America*. Princeton: Princeton University Press
Bowles S and Gintis H (1993) The revenge of *Homo Economicus*: Contested exchange and the revival of political economy. *Journal of Economic Perspectives* 7(1):83–102
Bowles S and Hwang S-H (2008) Social preferences and public economics: Mechanism design when social preferences depend on incentives. *Journal of Public Economics* 92(8–9):1811–1820
Buchanan J M and Tullock G (1962) *The Calculus of Consent*. Ann Arbor: University of Michigan Press
Burchell G, Gordon C and Miller P (eds) (1991) *The Foucault Effect: Studies in Governmentality*. Chicago: University of Chicago Press
Caldwell B (1997) Hayek and socialism. *Journal of Economic Literature* 35(4):1856–1890
Caldwell B (2004) *Hayek's Challenge: An Intellectual Biography*. Chicago: University of Chicago Press
Caldwell B (2010) Review of P Mirowski and D Plehwe (eds) *The Road From Mont Pèlerin: The Making of the Neoliberal Thought Collective*. http://eh.net/book_reviews/road-mont-p%C3%A8lerin-making-neoliberal-thought-collective (last accessed 3 February 2011)
Castree N (2009) Crisis, continuity and change: Neoliberalism, the left and the future of capitalism. *Antipode* 41(s1):185–213
Cheung S N S (1992) On the New Institutional Economics. In L Werin and H Wijkander (eds) *Contract Economics* (pp 48–65). Oxford: Blackwell
Coase R H (1937) The nature of the firm. *Economica* 4(16):386–405
Coase R H (1960) The problem of social cost. *Journal of Law and Economics* 3(4):1–44
Cochrane J H (2011) How did Paul Krugman get it so wrong? *Economic Affairs* 31(2):36–40
Davies W (2010) Economics and the "nonsense" of law: The case of the Chicago antitrust revolution. *Economy and Society* 39(1):64–83
Debreu G (1959) *Theory of Value: An Axiomatic Analysis of Economic Equilibrium*. New Haven: Yale University Press
Devine P (2012) *Democracy and Economic Planning: The Political Economy of a Self-Governing Society* (2nd edn). Cambridge: Polity
De Vroey M (2009) A Marshall–Walras divide? A critical view of the prevailing viewpoints. *History of Political Economy* 41(4):709–736
Donzelot J (2008) Michel Foucault and liberal intelligence. *Economy and Society* 37(1):115–134
Duménil G and Lévy D (2011) *The Crisis of Neoliberalism*. Cambridge: Harvard University Press
Fine B and Milonakis D (2009) *From Economics Imperialism to Freakonomics: The Shifting Boundaries Between Economics and Other Social Sciences*. London: Routledge
Florenzano M (2010) Government and the provision of public goods: from equilibrium models to mechanism design. *The European Journal of History of Economic Thought* 17(4): 1047–1077
Foucault M (2008) *The Birth of Biopolitics: Lectures at the Collège de France 1978/1979* (ed M Senellart; trans G Burchell). Basingstoke: Palgrave
Friedman M (1953) The methodology of positive economics. In M Friedman (ed) *Essays in Positive Economics* (pp 3–43). Chicago: University of Chicago Press
Gibson-Graham J K (2006) *A Postcapitalist Politics*. Minneapolis: University of Minnesota Press
Hagemann H (2010) Cläre Tisch. In R W Dimand, M A Dimand and E L Forget (eds) *A Biographical Dictionary of Women Economists* (pp 426–429). Cheltenham: Edward Elgar
Hagemann H (2012) "Capitalist Development, Innovations, Business Cycles and Unemployment: Joseph Alois Schumpeter and Emil Hans Lederer." GREDEG Working Paper no 2012–13. http://www.gredeg.cnrs.fr/working-papers/GREDEG-WP-2012-13.pdf (last accessed 7 October 2013)

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

Hahn F (1984) *Equilibrium and Macroeconomics*. Cambridge: MIT Press
Hall R L and Hitch C J (1939) Price theory and business behaviour. *Oxford Economic Papers* 2(1):12–45
Hall S (2011) The neoliberal revolution. *Soundings* 48(summer):9–27
Harvey D (2005) *A Brief History of Neoliberalism*. Oxford: Oxford University Press
Harvey D (2009) The crisis and the consolidation of class power: Is this *really* the end of neoliberalism? *Counterpunch*. http://www.counterpunch.org/2009/03/13/is-this-really-the-end-of-neoliberalism/ (last accessed 14 May 2012)
Hayek F A (ed) (1935) *Collectivist Economic Planning*. London: Routledge
Hayek F A (1948) *Individualism and Economic Order*. Chicago: University of Chicago Press
Hayek F A (1967) *Studies in Philosophy, Politics and Economics*. Chicago: University of Chicago Press
Hayek F A (1973) *Law, Legislation, and Liberty: Vol. I: Rules and Order*. Chicago: University Chicago Press
Hayek F A (1988) *The Fatal Conceit: The Errors of Socialism* (ed W W Bartley III). Chicago: University of Chicago Press
Hayek F A (1994) *Hayek on Hayek: An Autobiographical Dialogue* (eds S Kresge and L Wenar). Chicago: University of Chicago Press
Hayek F A (2007 [1944]) *The Road to Serfdom*. Chicago: University of Chicago Press
Hurwicz L (2008) But who will guard the guardians? *American Economic Review* 98(3):577–585
Keynes J M (1937) The general theory of employment. *Quarterly Journal of Economics* 51(2):209–223
Keynes J M (1964 [1936]) *The General Theory of Employment, Interest, and Money*. New York: Harcourt, Brace and World
Kirzner I M (1992) *The Meaning of Market Process: Essays in Development of Modern Austrian Economics*. London: Routledge
Kirzner I M (2000) *The Driving Force of the Market: Essays in Austrian Economics*. London: Routledge
Krueger A O (1974) The political economy of the rent-seeking society. *American Economic Review* 64(3):291–303
Krugman P R (2009) How did economists get it so wrong? *The New York Times* 2 September
Lee K S (2006) Mechanism design theory embodying an algorithm-centered vision of markets/organizations/institutions. *History of Political Economy* 38(Suppl):283–304
Lemke T (2002) Foucault, governmentality, and critique. *Rethinking Marxism* 14(3):49–64
Lester R A (1946) Shortcomings of marginal analysis for wage-employment problems. *American Economic Review* 36(1):63–82
Littlechild S C (1979) *The Fallacy of the Mixed Economy: An 'Austrian' Critique of Conventional Economics and Government Policy*. San Francisco: Cato Institute
Mackenzie D (2009) *Material Markets: How Economic Agents are Constructed*. Oxford: Oxford University Press
Madra Y M (2012) "Auction or selection? Competing market metaphors in post-war neoclassicism." Unpublished manuscript
Madra Y M and Adaman F (2010) Public economics after neoliberalism: A theoretical-historical perspective. *European Journal of History of Economic Thought* 17(4):1079–1106
McCloskey D N (1998) The good old Coase theorem and the good old Chicago school: A comment on Zerbe and Medema. In S G Medema (ed) *Coasean Economics: Law and Economics and the New Institutional Economics* (pp 239–248). London: Kluwer
Medema S G (1994) *Ronald H. Coase*. London: Macmillan
Medema S G (2009) *The Hesitant Hand: Taming Self-Interest in the History of Economic Ideas*. Princeton: Princeton University Press
Mirowski P (1989) *More Heat than Light: Economics as Social Physics, Physics as Nature's Economics*. Cambridge: Cambridge University Press
Mirowski P (2002) *Machine Dreams: How Economics Became a Cyborg Science*. Cambridge: Cambridge University Press
Mirowski P (2007) Naturalizing the market on the road to revisionism: Bruce Caldwell's *Hayek's Challenge* and the challenge of Hayek interpretation. *Journal of Institutional Economics* 3(3):351–372

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.

Olson M (1988) The productivity slowdown, the oil shocks, and the real cycle. *Journal of Economic Perspectives* 2(4):43–69
Özselçuk C and Madra Y M (2010) Enjoyment as an economic factor: Reading Marx with Lacan. *Subjectivity* 3(3):323–347
Peck J (2010) *Constructions of Neoliberal Reason*. Oxford: Oxford University Press
Peck J, Theodore N and Brenner N (2009) Postneoliberalism and its malcontents. *Antipode* 41(s1):94–116
Polanyi K (1944) *The Great Transformation*. Boston: Beacon
Posner R A (2011) *A Failure of Capitalism: The Crisis of '08 and the Descent into Depression*. Cambridge: Harvard University Press
Rizvi S A T (1994) The microfoundations project in general equilibrium theory. *Cambridge Journal of Economics* 18(4):357–377
Roth A E (2008) What have we learned from market design? *Economic Journal* 118(527):285–310
Rothbard M (2009) *Man, Economy, and State with Power and Market* (2nd edn). Auburn: Ludwig von Mises Institute
Sent E-M, Backhouse R E, Coats A W B, Davis J B and Hagemann H (2005) Perspectives on Michael A. Bernstein's *A Perilous Progress: Economists and Public Purpose in Twentieth Century America*. *The European Journal of the History of Economic Thought* 12(1):127–146
Shapiro C and Stiglitz J E (1984) Equilibrium unemployment as a worker discipline device. *American Economic Review* 74(3):433–444
Stigler G (1961) The economics of information. *Journal of Political Economy* 69(3):213–225
Stigler G (1965) *Essays in the History of Economics*. Chicago: University of Chicago Press
Stigler G (1970) The optimum enforcement of laws. *Journal of Political Economy* 78(3):526–536
Stiglitz J E (1996) *Whither Socialism?* Cambridge: MIT Press
Stiglitz J E (2010) *Freefall: America, Free Markets, and the Sinking of the World Economy*. New York: W W Norton
Sugden R (1989) Spontaneous order. *Journal of Economic Perspectives* 3(4):85–97
Tribe K (2009) Political economy of modernity: Michel Foucault's Collège de France Lectures of 1978 and 1979. *Economy and Society* 38(4):679–698
Vanberg V (2001) *The Constitution of Markets: Essays in Political Economy*. London: Routledge
Vanberg V (2009) "Liberal Constitutionalism, Constitutional Liberalism, and Democracy." Freiburg Discussion Papers on Constitutional Economics no. 09/4, Walter Eucken Institut
Van Horn R and Mirowski P (2009) The road to a world made safe for corporations: The rise of the Chicago school of economics. In P Mirowski and D Plehwe (eds) *The Road to Mont Pèlerin: Making of the Neoliberal Thought Collective* (pp 139–178). Cambridge: Harvard University Press
Williamson O E (1993) Contested exchange versus the governance of contractual relations. *Journal of Economic Perspectives* 7(1):103–108

© 2013 The Author. *Antipode* © 2013 Antipode Foundation Ltd.